



OFFICE OF
**INSPECTOR
GENERAL**
UNITED STATES POSTAL SERVICE

HIGHLIGHTS

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Lease Risk Model Analysis in the Northeast Area

Report Number SM-AR-14-001

BACKGROUND:

The U.S. Postal Service spends more than \$805 million annually leasing about 24,000 facilities nationwide. The Northeast Area spends more than \$184 million annually to lease more than 3,300 facilities.

Area officials begin the lease renewal process 12 to 24 months before a lease ends by reviewing lease information provided by the Postal Service's Facilities organization. In conjunction with Facilities, area officials balance their portfolio of existing facilities with current and projected space needs by conducting facility operational analyses called node studies.

During fiscal year 2012, the U.S. Postal Service Office of Inspector General (OIG) developed a predictive risk model, which analyzes whether the Postal Service is renewing leases at a fair price and whether it needs leased space that is due for renewal. Our objective was to assess opportunities for potential cost savings in Northeast Area facility leases.

WHAT THE OIG FOUND:

The Northeast Area could potentially realize cost savings in 52 percent of its facility lease renewals. Of those, the risk model indicated above-market rates for 250 leases that are expiring within 2 years, which represents \$6.6 million in potential savings over the duration of the leases. Thirty-nine of these leases

were for significantly underused facilities based on decreases in revenue, mail volume, and hours worked. The Northeast Area and Facilities could also use model results to further target their node studies on underused facilities.

While Postal Service policy directs Facilities personnel to determine and provide fair market value for expiring leases, the Northeast Area lacked the resources to verify whether this data was accurate. Additionally, Facilities' node study criteria excluded some facilities for review due to their lease expiration date or annual lease value.

Given the financial challenges facing the Postal Service, the Northeast Area and Facilities could use OIG model results to potentially save money on lease payments and better target resources to determine facility optimization.

WHAT THE OIG RECOMMENDED:

We recommended the vice president, Northeast Area, in coordination with the vice president, Facilities, use the OIG risk model results to assist in the decision making and negotiation of lease rates and future node studies.